

SMALL BUSINESS EXPENSING: JOB GROWTH THROUGH THE TAX CODE

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& GOVERNMENT PROGRAMS

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TUESDAY, AUGUST 9, 2005

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON WORKFORCE, EMPOWERMENT, AND
GOVERNMENT PROGRAMS
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Subcommittee met, pursuant to call, at 1:30 p.m., in The Commissioners Hearing Room, Larimer County Courthouse, Fort Collins, Colorado, Hon. Marilyn Musgrave [Chairwoman of the Subcommittee] presiding.

Present: Representatives Musgrave and Beauprez.

Chairwoman MUSGRAVE. Good afternoon. I want to thank you all for coming. I am very happy to be here today and I would like to thank Larimer County Commissioners for allowing us to use this room. They have great facilities here and I appreciate their accomodation so very much.

Before we begin I would also like to thank my good friend, Congressman Bob Beauprez, for joining us today. I am very happy to have him here. I served with him on the Small Business Committee in the 108th Congress. He is an invaluable asset to Congress and he has quite a life story to tell. He has very good real world experience when it comes to business. I so much appreciate that.

He has owned a small business. He has had to make a payroll. He has had to find affordable health insurance for his employees and he has had to comply with government regulations and those are no small task.

He also realizes the immense burden placed on small businesses by a federal government and he has excellent ideas as to how to rectify that situation. Really when you look around at the members of Congress, few have had the experience that Congressman Beauprez brings to Congress and to this hearing today.

You know, when you look at the Members of Congress, perhaps too few of them have ever had to make a payroll themselves and they have no idea of the challenges that small business owners face. Despite the significant tax relief that Congress and President Bush passed for small businesses, the tax code is still ridiculously complex and burdensome.

A 2001 study conducted by the SBA's Office of Advocacy found tax compliance on average \$1,200 per employee for small firms compared to \$562 per employee for large firms. That is a signifi-

cant handicap for a small business because anybody who understands opportunity knows that every extra minute spent deciphering the tax code is one less minute that the owner can spend growing his or her business, providing new jobs, and revitalizing our economy. We must continue to strive for less burdensome levels of taxation along with simplicity in our tax code.

This brings us to the topic today, expensing. As many of you know, Section 179 of the Internal Revenue Code limits the amount a small business may directly expense in a given year versus what can be depreciated over time. Under the Jobs and Growth Tax Relief Reconciliation of 2003 signed into law by President Bush, the maximum allowance was raised from \$25,000 to \$100,000 and the phase-out threshold from \$200,000 to \$400,000 in '03 through 2005.

The American Job Creation Act of 2004 extended the enhancements made by the '03 Bush tax cuts through 2007. Unfortunately, without further action by Congress these limits will return to \$25,000 and \$200,000 respectively when the expensing limit expires in 2007.

Earlier this year I introduced HR 1678 which will extend the higher Section 179 limits through 2010. Maintaining the higher limits will result in higher demand of goods, benefiting manufacturers and equipment sellers. It also means small business owners will have extra money in their hands to hire more employees and put the new equipment to use immediately. Extending higher limits of Section 179 through 2010 helps provide greater stability and more tax relief for small business owners allowing them to better plan for their future.

We must always look at ways to foster growth from within small businesses and Section 179 can certainly play a major part. In a perfect world I would like to see the end of depreciation schedules allowing both large and small businesses to expense everything; providing an immediate and healthy boost to the business community.

Depreciation and the record keeping that goes along with it is a complex and time-consuming process. For a small business that may be using cash accounting, expensing the cost of equipment purchases is much easier and much more realistic. Realizing that we cannot get to that point overnight, an excellent place to provide certainty and confidence in the tax code is maintaining the direct expensing limits under 179 of the IRS code.

Small businesses are the backbone of our economy. We hear this all the time. They represent 99 percent of all employers. More than half of all U.S. employees work for small firms and they generate between 60 and 80 percent of all new jobs in America. Small businesses are the main component of our economic engine and we as your elected officials must do all we can to foster, not hinder, their growth.

Extending the increased spending limits is a good start but we must and will do more. High and confusing taxes are some of the most important issues we will be working on to help small businesses grow and prosper. I am eager to hear today's testimony but before we begin I would like to recognize Congressman Beauprez for some opening comments.

Mr. BEAUPREZ. Thank you, Madam Chair. Let me return the favor a little bit. You were very, very generous in your comments. You have obviously worked tirelessly in Congress and on the Small Business Committee especially and it has been duly rewarded by asking you to chair this important subcommittee. I think it should be noted by your constituents and all of us in Colorado by a round of applause, if you don't mind.

There are a few things from my time in elective office, which is small by comparison to you, but there are a few things that I have taken note of. One of those is that politicians will almost uniformly from the city council level of the President of the United States pledge allegiance to supporting a strong expanding job-creating economy. Who isn't going to pledge that they will do that? When you have people like Congresswoman Musgrave that actually understand how you can make that happen, it becomes very, very different.

What we are talking about today with your bill, HR 1678, is exactly that. When we first discussed this during the Jobs Act, the big tax bill from the 2003 Congress, there were actually members of the United States Congress who openly said, "Gee, if we increase expensing from \$25,000 to \$100,000, that won't do much, will it?" Well, I just found that absolutely perplexing that anybody in the United States Congress would actually say that. They not only said it, they really believed that was the case. They just didn't know. No basis of understanding.

I have run a dairy farm before and then later our own little community bank, which is a small business really just like anybody else's. It immediately made sense to me, especially from running the bank, 85 percent of our loan customers at that bank were small business people. Most of them owned or operated mom and pop some people would call them.

I immediately reasoned, let's see, if we can take from \$25,000 to \$100,000 that expensing allowance, we are basically saying we will spot you the first about 35 cents on the dollar of everything that you would like to purchase between that \$25,000 and \$100,000. Would that make a difference? You bet it would.

Walk in a machine shop and somebody, the guy running that place, will immediately tell you, "Yeah, I would like to get a new drill press, a new lathe." You walk into almost any manufacturing firm and they are going to have a long list of equipment they would like to purchase, retail operations. Absolutely. Guess what happened even as we just talked about these tax cuts? The economy got going again, didn't it? Just by talking about it.

Then when the President signed it, we immediately saw a spike up, GDP went to over 8 percent. It went up over 8 percent. We have had 14 consecutive sustained quarters of growth. Eight of them over 3 and a quarter percent. It looks like more in front of us.

Jobs. We have created now almost 4 million new jobs in just over two years. The new job numbers out just the other day are extremely encouraging. Over 200,000. In Colorado alone last month—we are still waiting on the newest of the new. Jim, maybe you have those, I don't know, but I haven't seen the newest one.

I have seen \$49,000 in Colorado and we were lagging a little bit. We were just a little bit slow getting going again. I think a lot of that was due to the fact that we took such a blow and we were so dependent on the high tech sector. Then what our airlines are going through wasn't all that helpful either. We took a pretty good hit but we are coming back, 49,000 new jobs.

We are about the 25th largest work force in the nation. Of the 50 states we are just about dead even. But when you look at job creation, there is only about 12 or 13 of those 25 states that are bigger than us. Only about half of them that are creating jobs faster than we are.

Our GSP, gross state product, is growing at about 3.8 percent so we are out performing even a very robust national economy right now. Why do I say all that? I say all that, Madam Chair, because I think it is important we keep it going. The last thing in the world that would make any sense to me is that once you get something headed in the direction you want it to go in, why would you turn the steering wheel and send it in a different direction?

We know why the economy got going. It is the hard work of people like right here in this room, especially you that are going to testify to us today. You are the ones that get the economy going. At best maybe we can implement decent policy that gives you a chance to get it going and realize your dreams, make a difference, create jobs and opportunity and get this economy going again. I think one of the big ways that we did implement some good policy is by increasing the expensing deduction as we did in the last big tax bill.

I have the wonderful opportunity now of serving on Ways and Means and when we get back shortly after Labor Day we will be taking up, Madam Chair, the whole issue of these taxes, these tax cuts that we put in place that I think made so much sense.

The testimony we are going to hear from this panel today and your leadership will be very important to us getting the collective information at the Ways and Means Committee to hopefully make the right decisions as we go forward. What can we do and what can we do without. This is one that I think made a huge amount of difference. I look forward to the testimony from these witnesses. With that I will yield back.

Chairwoman MUSGRAVE. Thank you, Mr. Beauprez. I want to welcome the witnesses today. We are very mindful of your expertise and your firsthand knowledge on these issues. I certainly want to extend my appreciation for you taking time to be before us here today.

We have a rather primitive timing system here because we don't have lights like we do in Congress but we are going to have a green light when you are at about—when you have spoken for three minutes you will get that. When you have spoken for four, you will get the yellow.

When you get the red you have had your five minutes but blessed are the merciful for they shall receive mercy so don't get nervous. I appreciate your being here today and we are going to start off with Mr. Jim Henderson, a regional advocate for the SBA Region 8. Thank you so much for being here.

**STATEMENT OF MR. JAMES HENDERSON, REGION VIII, OFFICE
OF ADVOCACY, US SMALL BUSINESS ADMINISTRATION**

Mr. HENDERSON. Thank you Congresswoman Musgrave and Congressman Beauprez and the Committee. It is a great honor and privilege to be here today with you to submit not only some verbal comments but also our written testimony which I will be summarizing with my comments.

As you said, I am Jim Henderson and I am the Regional Advocate for the U.S. Small Business Administration, Office of Advocacy. It is a small portion of the Small Business Administration that was created specifically to be a voice for small business because a lot of times small businesses simply do not have the time to get to hearings like this and express their views. So that is one of the missions we have at the Office of Advocacy.

I also want to say that if there are any tough questions you throw at me later, I brought my tax counsel here, Candace Ewell. She is also from the Office of Advocacy. She can handle the tough ones and I will take the easy ones.

Small businesses, as I said earlier, finds it difficult to have the time and the Committee asked specifically what is the impact of the expensing provision on the small business community? Section 179 has had a significant positive impact on the small business community in particular in two areas.

One, it enables them to increase their cash flow and the other is it dramatically reduces their paperwork as you alluded to in your opening comments about the difficulty of the tax code in deciphering that whole process.

We looked at the data in 1999. The tax data that we could get a hold of showed that 69 percent of the business that elected to take advantage of expensing for their purchases were actually small proprietors and individual farmers. That represents nationwide about 2.9 million small businesses so there are a lot that look to this provision to help them manage and operate their business.

Chairwoman Musgrave, it is your leadership, and Congressman Beauprez' leadership as well, that has helped in a number of other areas in making the regulatory environment more user friendly, if you will, for the small business community. We commend you on that.

With regard to the expensing provision, I think the quickest way to drive home its importance is to just cite some examples. One example I would like to mention I got from one of the CPAs in Colorado Springs about a firm that he was coaching, if you will, to open up a medical clinical. A medical clinic is very high-intensity capital investment. He explained to him the benefit of using the expensing provision.

In fact, they used it nearly to the max to open this clinic. But what was even more dramatic for them was by having the latest state of the art equipment, it enabled them to compete more as they started their start-up business. The other thing was by expensing and bring some of that money back into the business they were able to hire a couple of key employees that they wanted to have at the very start of their business operation.

Another example I would like to cite also comes from another CPA is a town, actually a very small town. It has a cheese plant

in it and they wanted to upgrade their operation. It was going to be a substantial investment in new equipment.

Again, they took advantage of the expensing provision which enabled them to expand that operation in that small community. But by using that expensing provision and bringing some of that capital back in to their cash flow, they were able to move from having 13 or 14 employees up to 20 employees.

If you sit in one of these small towns and see where one business has been able to increase by six employees, that in that local economic area is a significant impact. That is why we are very concerned that this legislation that you have proposed to extend the higher expensing provisions is extended. I see that I have the yellow light already.

The importance of this legislation just cannot be, I think, overstated. It has a dramatic effect and with the smaller firms as they look at managing their cash flow and trying to make a decision whether to bite off that big chunk for a large piece of equipment in their operations, this will enable them to make that decision much easier and move ahead and create the expansion of their operations through hiring maybe additional people in their own business and, of course, helping the entire economy in the area they are in.

We feel it is a tremendously important provision. We think that HR 1678 needs to be enacted and I thank you kindly for your time and your attention today and just urge your success in getting this extended. I want to extend our support in anyway we can to help. Thank you.

[Mr. Henderson's testimony may be found in the appendix.]

Chairwoman MUSGRAVE. Thank you very much for your testimony. I don't know about you, Bob, but it seems like the witnesses are a long ways away. It is a great room but they are a long ways away.

Ms. Jones, if you will pull the microphone as close as you can or get as close to it so we can hear you. We are looking forward to your testimony and thank you very much for being here.

STATEMENT OF LINDA JONES, AREA RENT-ALLS

Ms. JONES. Good afternoon, Chairman Musgrave and Congressman Beauprez. My name is Linda Jones. I own and operate Area rent-Alls which has two facilities in Westminster, Colorado with a total of 15 employees. I am also a past-Director on the board of the American rental Association which represents Colorado, Arizona, New Mexico, Utah and Wyoming.

I want to thank you for the opportunity to testify before you here today on the impact of Section 179 of the federal tax code on rental businesses. I will summarize my testimony, but ask that the full extent of my remarks be included in the record.

ARA's membership includes more than 4,000 rental businesses with 6,200 locations and 960 suppliers. The majority of ARA's members are small, family-owned and often multi-generational rental businesses. ARA members rent construction equipment and tools to contractors and home owners and party and event supplies to commercial and private clients.

The entire rental industry generates more than \$24 billion in annual revenue. Approximately 80 percent of the ARA members operate businesses that generate less than \$1.5 million in annual revenues and 95 percent of ARA members are businesses that generate less than \$3 million in annual revenue.

The rental business is capital intensive. Rental businesses need equipment inventory to serve their customers. ARA estimates the total rental inventory in 2004 was valued at \$34.1 billion (new equipment value). We believe the annual replacement cost for equipment in the rental industry ranges between \$3.4 million and \$6.2 billion. ARA estimates that more than 90 percent of our members reinvest less than \$400,000 annually making them eligible for Section 179.

Now, let me give you a little of my background. I am a second-generation rental store owner. My parents and grandparents started the general tool/construction rental store in 1962. I purchased Area Rent-Alls from my parents in 1986. At that time I added costumes rental to our inventory to increase income for business during slow seasons. I expanded to a second location in 1994 and at that time I added wedding and party equipment. Thus, my rental business reflects both costume and party rental and equipment rental for homeowners and contractors.

In the 1986 Colorado recession, I managed the rental store with two employees. That year 13 rental stores in Colorado went out of business. I feel fortunate enough to have survived that economic downturn. Today I have 15 to 18 employees all of whom have families to support. I would like to add that I have never had to lay off any employees in spite of the rise and fall in our economy since 1986. I would hope the reason for that is good management skills, which brings me here today to talk to you on Section 179.

I would like to tell you how Section 179 has personally helped my business. In 2003 I was able to use \$57,000 of the allowable expensing for purchasing equipment within Section 179. This actually equated to a tax savings for my business of approximately \$7,360. That same year I incurred a 30 percent increase in health insurance premiums.

This tax savings gave me the funds to maintain health insurance coverage for my employees. This fact alone is very significant for my employees and their families and for me as an employer to hire and retain good employees.

Section 179 not only benefitted the health insurance for my employees but also helped me to add new inventory with updated safety features for my customers. In 2004 I was again able to use \$64,000 of the allowable Section 179 expensing. Again, this savings, due to the availability of Section 179, was immediately reinvested into my employees' healthcare benefits, and aided me to continue to update equipment in my rental inventory.

This tax benefit allows me as a small business owner to continue to reinvest in the economy of my community by providing the public with the service of rental equipment. I also realize that all costs of maintaining and growing my business continue to escalate, the costs of maintaining my property and equipment, advertising, training and education for my employees of similar expenses. The

tax benefit of Section 179 affords opportunity for continued growth for the right reasons to individuals involved in small business.

I have not estimated the total amount of the \$100,000 of Section 179 allowable expensing for the year of 2005 but I know I have planned to use an increased level from previous years. The availability of Section 179 motivates me to continue to grow my business and is a key component within my business plan.

It gives me the ability to react to opportunities for increased profits to expand my business. My goal is to combine my two rental stores into one larger location. This goal is achievable in a more reasonable time frame only because of the availability of Section 179. It is a vital part of my planning for the future and for ensuring a bright and profitable future for my rental business. Section 179 continues to be an instrumental business tool within the goals of Area Rent-Alls and I am sure for all small businesses.

Madam Chairman and Congressman Beauprez, I and I am sure many small businesses would like to thank you for sponsoring HR 1678. In summary, the current provisions of Section 179 help small businesses like mine compete by providing incentives to invest in new equipment. The option of expensing more of our investment dollars also allows us to manage cash flow and generate additional free cash allows us to expand our businesses and increase employment in our communities.

Passing HR 1678 would be a positive step for small business. However, ARA strongly supports the position that the current Section 179 provisions should be made permanent. Small businesses like mine and so many other members of the American Rental Association need a simple, straightforward way of managing their tax exposure.

I urge you to consider our position in your future deliberations on Section 179. Small business owners want to continue to be a part of the future of our local economies. The assistance you can give us to do so through your policy decisions will make a dramatic difference to our future.

That concludes my remarks, Madam Chairman. Once again, thank you. I will be happy to answer any questions you or Congressman Beauprez have at this time.

[Ms. Jones' testimony may be found in the appendix.]

Chairwoman MUSGRAVE. When you try to say Congressman and Beauprez—

Ms. JONES. That is tough.

Chairwoman MUSGRAVE. I have been stumbling, too. I understand, and I know him very well.

Mr. BEAUPREZ. There ought to be a law.

Chairwoman MUSGRAVE. Yes, there ought to be a law. Thank you. That is a great story of how resilient you have been and it is encouraging to hear about business growing sometimes under adverse situations. Thank you.

Chairwoman MUSGRAVE. Our next witness is Mr. Craig Hau.

Welcome. We are happy to have you here today. He is a commercial broker from The Group Inc. here in Fort Collins.

STATEMENT OF MR. CRAIG HAU

Mr. HAU. Thank you, Madam Chairman, Representative Beauprez. A little history on myself. I have been a resident of Fort Collins since 1972 and have been in the real estate business since 1976 here in Fort Collins so I have had the opportunity to deal with a lot of small business owners and acquisitions of properties.

Fortunately over the years I have been able to also invest and my experience with the tax code is mainly personal but also from partners that I am associated with that own other small businesses. I own part of and manage about 16 corporations and limited liability companies. There are a couple of construction companies but most of them are real estate investment groups.

I manage the properties that are owned by those entities. We always check with our CPA to see what is the wise thing to do in capital investments. The code as it is written definitely inspires small business to invest in equipment. Personally I did that in '03 and '04 and plan to continue that.

I think that alone with acquisition of those items for construction companies and maintenance companies, you know, their tractors and trailers and mowers and trucks and that sort of thing. But also the part of the code that encourages small businesses to acquire their housing for their businesses, the offices and facilities because they escalate depreciation on qualified items for the permanent tenant improvement part of the premises.

That part alone in '04 we help broker. In fact, I had a couple of patent attorneys as partners. We went together and had an office building built. I was just kind of making a few notes but about \$14 million of the construction in seven buildings happened in '04 because of the inspiration of that part of the code. A lot of people don't think it has an effect but it really truly does. Those buildings are on Timberline Road by Low and Caribou if you would like to know where they are.

I think the extension of the bill inspires small business to invest, inspires business people in the community from the legal, the financial, the medical people, all of them really, to spend that money and the ability to write it off up to a certain level.

I should also mention the fairness. A lot of people don't realize that whether you own two companies or 10 it is still \$100,000 per individual through that ownership as it is passed down to your personal tax return. It is not a windfall, let us say, if you own more than one company. It is really fair across the board.

It has made a difference. In Fort Collins I have personally seen it. I have partners that I am close to that also spent their capital and invested in equipment. We would very much like to see it extended.

It makes a lot of sense. The bill was put together for a purpose. It was to expand the economy and create jobs. We have about a dozen employees and have increased that because of our expansion. It seems to be a very good thing. My personal experience with it is that it does work and it fulfills its mission.

Other than if you have questions for myself, that's pretty much my testimony. We appreciate all that you do and I think it makes great sense to extend it until they revise the entire tax code perhaps through that time. Thank you.

[Mr. Hau's testimony may be found in the appendix.]

Chairwoman MUSGRAVE. Thank you for your testimony. It is interesting to hear what a difference it has actually made right here in Fort Collins. We appreciate that. There is a bill out there, HR 1388, and that is sponsored by Congressman Wally Herger from California and that is the permanent bill.

Quite frankly, what we are going to be able to do hopefully is through 2010 but it is very important because of the predictability and the certainty that you all need to work towards a permanent so we will be continuing that.

Okay. Our next witness is Mr. Ron Lautzenheiser. We are happy to have you here today.

STATEMENT OF MR. RON LAUTZENHEISER, BIG O TIRE

Mr. LAUTZENHEISER. Madam Chair, you thought Beauprez was bad. Try Lautzenheiser. Good afternoon, Madam Chair, and Congressman Beauprez.

Mr. BEAUPREZ. Well done.

Mr. LAUTZENHEISER. My name is Ron Lautzenheiser. I would like to thank you for taking time to visit our city and to solicit input and ideas about job growth through the tax code. Specifically HR 1678 as it relates to Section 179 of the code. I am the owner of two Big O Tires and Automotive Service Centers and two Grease Monkey Lube Centers located in Larimer and Weld counties.

In addition to representing my own retail centers, I am representing the more than 550 independently owned Big O Tire and Automotive Centers, the 1,200 small businesses that are active in the Fort Collins Area Chamber of Commerce and the more than 50 small businesses located within our new Urban Renewal Boundary in North Fort Collins.

After spending 30 years in the world of the large corporations, I founded our first automotive center in 1996 and we expanded in 2001, 2003 and 2005. Together the centers employ more than 50 persons. Over the last nine years I have used government programs to assist in the start up of all of these businesses. Specifically the SBA 7(A) programs, the loan guarantees and, of course, Section 179 of the code. Without these important programs I would very likely not be in business today and would not be employing our more than 50 associates.

The current tax law signed by President Bush in 2003 which increased the Section 179 capital equipment write-off limits to \$100,000 in year one, was very instrumental in my decision to start two new automotive centers in years 2003 and 2005. In addition to opening new centers, we also acquired new capital equipment for use in our existing centers in 2004 and 2005.

The purpose of new capital equipment allows me to produce a higher quality product or service usually with less repair and maintenance cost. It helps my business be more efficient and, therefore, more competitive in the market place. Section 179 help me defray the cost of capital acquisitions because immediate tax savings leads to immediate reinvestment.

Extension of the current deduction limits to 2010 will help alleviate my personal concern about the timing of capital acquisitions. Opening a new center usually requires real estate acquisition and

construction. This is a lengthy process which starts two to three years prior to a center opening. With the current law expiring in 2007 it is probably already too late for me to open new centers in our area and utilize the current \$100,000 deduction limit if it is allowed to expire.

Fort Collins also has a new URA on the blighted North Side of our city. The URA is in year one of its 25-year life. The extension of Section 179 to year 2010 would greatly assist many of the 50 plus small businesses located within the URA boundary who are trying to turn this blighted area of the city into a job growth area.

Many of the 550 Big O Tire and Automotive Centers are currently making decisions about whether to purchase new capital equipment. The average new center purchase is \$200,000 to \$300,000 of capital and employs 10 to 15 associates. Section 179 deductions have a strong influence on these decisions.

In conclusion, I would like to thank the Congresswoman and Congressman for their efforts in working towards the passage of 1678. Raising capital, particularly at affordable rates, is one of the small businesses' greatest challenges. It ranks right up there with the high cost of health care. In my work as a volunteer Fort Collins SBDC mentor to new franchise business owners, I see their ability to raise capital as one of their real hurdles and extension of 179 will be of tremendous assistance to them as it will to all businesses.

Again, my thanks to Chairperson Musgrave and Congressman Beauprez. Thank you.

[Mr. Lautzenheiser's testimony may be found in the appendix.]

Chairwoman MUSGRAVE. Thank you for your excellent testimony.

We have another interesting name here. Rob Pehkonen is here to testify. We are very happy to have you here and look forward to your testimony.

STATEMENT OF MR. ROB PEHKONEN

Mr. PEHKONEN. Thank you Congresswoman Musgrave and Congressman Beauprez. A little background on myself. I own a couple of different companies. I own some real estate. Then most people in Fort Collins kind of know me as the Maytag man. I own the Maytag store here in Fort Collins. The revision of Section 179 has been very instrumental in the growth of the Maytag store.

My testimony is very, very simple. My company has tripled in dollar volume and doubled in the employees that I employ in the past 12 months due directly because of the revision of Section 179 of the Internal Revenue Tax Code allowing small business to expense the full value of new capital equipment, furniture, computer, office equipment and other expenses incurred in open up three new retail appliance stores in the Colorado area. I am in favor very much, as I am sure we are all surprised, in HR 1678 extending the higher expensing limits up to \$100,000 and an investment up to \$400,000.

I own and operate five appliance retail stores in Colorado. I have one in Fort Collins, one in Greeley, one in the Northglenn area, Lakewood, and then also down south at Southwest Plaza. If you had asked me 12 months ago, I only own two. I own the Fort Collins store and also the Greeley store.

The current law signed by President Bush in 2003 was a very strong deciding factor that helped make it possible for me to undertake this major expense and expansion in my business. It helped reduce the high cost of adding three new retail locations in 2004 and also 2005 and helped provide up-front additional cash flow by reducing my tax liability and in turn helping my business grow from 10 employees to currently 23 with a planned 28 by the end of the year.

My appliance business is very much like many small businesses around the country. My company goal is very simple. It is "Depend on Us" taken as an extension of the Ol'Lonely repairman theme of dependable product at a cost effective price. My showrooms have all the product hooked up live and plugged in so my customers can check out the appliance in my showroom before they take it home to their home.

It is very expensive to remodel a showroom, to have hot and cold running water by the washers, have drain lines so that we can actually do laundry in the showroom, power up all the equipment, and hook everything up live. It is very, very expensive.

An average cost of a new showroom for me to add is about \$150,000 per location. Simply stated, the revision of the tax code allowed me to expense more of these expenses in the year that I incurred the expense versus over the next five to often 37 plus years helping me directly grow here in Colorado.

I use the Subcommittee to continue their backing of HR 1678 and allow small business to grow, to allow our community to grow, and allow the economy to grow, and allow more people to be employed. I look forward to answering any questions that you have and helping you understand the importance of HR 1678 in my small business and many small businesses across the country. Thank you.

[Mr. Pehkonen's testimony may be found in the appendix.]

Chairwoman MUSGRAVE. Thank you very much for that excellent testimony.

Mr. Beauprez, do you have questions?

Mr. BEAUPREZ. Thank you, Madam Chair. Yes, I do. First of all, thank you. A very sincere thank you to the witnesses. I think you really highlight what I suspicioned was the case and I referenced in my opening remarks, how important this was to small businesses. Frankly, I wouldn't have imagined maybe all of the examples, especially the rental business, a perfect example but that candidly had escaped me.

I had a very good friend who was in that business. I will say because you probably won't that in addition to it being very important to your business, a very healthy well-stocked rental business is critical to the construction trade, the agricultural trade, on and on and on, to the whole business economy. On any given day his parking lot was probably as busy as any place in town so a perfect example of why this part of the tax code was very, very important. Thank you especially for your testimony.

Rob, you made me think, you and Mr. Lautzenheiser as well. You both made me think how important it is that we deal with this issue soon. You were both talking about the planning you do, the staging. What would happen if we punted on this, if we said, "Well,

we have some time. We don't need to do it just this year." Rob, how about you first of all.

Mr. PEHKONEN. It is very difficult just because of what Ron alluded to. There is one reason why I opened up one new appliance store in 2004 and two, which I will be very honest, was very, very difficult. A retail establishment to train employees, to saw cut floors, to acquire leases, to acquire government entities in order to allow us to remodel in that fashion took an awful lot of work to move things up very progressively so that I could make sure and comply with what needs to be complied to be able to exercise the option of Section 179.

If you just punt on it and wait, it is very difficult for business to plan future growth when they are unsure on whether or not they are going to be able to take advantage of the tax code in Section 179. A small business person that is unsure about something in the future usually is also going to pass on the opportunity of expanding their business.

Mr. BEAUPREZ. Anything you want to add, Mr. Lautzenheiser?

Mr. LAUTZENHEISER. I don't know if I would totally vacate plans to grow just because of this particular code but it would certainly slow down. I would not open as many centers. Again, it goes back to the acquisition and timing and cost of capital. It is that simple. We went from 96 to 201 five years and then with 179 gave us the impetus to purchase an existing business and convert it to a Big O because of the write-off.

The cost of the equipment was between \$100,000 and \$200,000 so we could expense it immediately. It has significant impact and has caused us to move much quicker than we would have in 2003. 2004 and 2005 we opened new centers and, of course, that is the longer planning process. The 179 if it expires in '07 absolutely is affecting us right now as to what we will do absolutely. We will just stretch out our planning. That's all.

Mr. BEAUPREZ. Mr. Hau, if I might, did I hear you correctly that you utilized some of the provisions in the tax code here in Fort Collins built about \$14 million of new real estate?

Mr. HAU. That is correct. We do that obviously in conjunction with our clients, CPAs, but certain portions of the home improvements of buildings can be written off one time up to \$100,000. They also qualified so that was a motivation. A majority of the people that built the office buildings in this one office park in '04 to get the buildings built and get the seals acquired before the end of the year to get that tax write-off on those qualified portions of the building.

Mr. BEAUPREZ. So you just answered a follow-up question I would have had which is what kind of buildings were these? These are office buildings?

Mr. HAU. These are all office buildings. Medical and legal and psychiatrist and accountants and attorneys.

Mr. BEAUPREZ. Would it be fair to assume then from what you just said that in addition to growing your own business in the partnerships you are involved in, it created a whole bunch of other jobs and stimulus to the local economy?

Mr. HAU. Not only in my case but, I think, overall in the economy. My personal opinion is probably 75 or 80 percent of those

buildings would not have been built if the incentive of the initial write-off was not there.

Mr. BEAUPREZ. Can you guess how many people are working in those buildings now, or will?

Mr. HAU. Oh, there has got to be 100. If you look at the construction part of it is pretty large. All the way through from the development of the land through the finalization of the buildings, all different aspects of the construction. Interestingly enough when you condominiumize a building it can also not just be one deduction per building. It is per condominium unit so the impact is pretty significant from the real estate side. At least the home improvement part of it.

Mr. BEAUPREZ. And last, especially when you talk about it being in real estate, those buildings aren't going away any time soon. It is a very permanent commitment to the local economy.

Mr. HAU. Right.

Mr. BEAUPREZ. I guess last, at least for right now, Madam Chair, another observation. I am listening to all of you and your businesses and I guess it is great if you expand and add employees and such. I am guessing you did that, though, in reaction to some growing demand. If I could just add a further observation about the tax bill that we did pass, we increased things like the child tax credit and immediately sent folks, moms and dads, a check.

We immediately reduced the tax burden on everybody who pays taxes. We created—we didn't create, they had already created. We just let a few dollars sit in people's pockets that wouldn't have otherwise been there so they could come to their rental shop, that they could come to the Maytag store, that they could exercise their own judgment in creating the demand to which I guess it is fair to say you all reacted to.

It is funny how it actually does work out there if we put some good policy in place. I think you have highlighted very excellent policy and you have also highlighted why we really do need to do this sooner rather than later, whatever it is we are going to do. That would be my last comment. Again, from the Ways and Means Committee if you are unaware, I am going to guess that I am speaking very much on behalf of both the Chair and myself when I say if we had our druthers, we would make this permanent.

Chairwoman MUSGRAVE. Absolutely.

Mr. BEAUPREZ. We deal in kind of a funny world back there where we have to score things and you hear about how different legislation is scored. What that really means is what is the cost. We never measure the anticipated benefit of which you have testified to at some length, the benefit obviously. We estimate the cost of some legislation.

In other words, the reduction of the federal treasury of a tax cut. We get tied up then in that funny budget mechanism when it is permanent, then the cost is almost incident the way we score taking into account no counterbalancing benefit. When you have only got a few billion, tens of billions, hundreds of billions, that is where we get put in our legislative box.

That is our problem but it quickly becomes your problem. The only reason I went through that lengthy speech is so that maybe somebody reads in this testimony that we ought to change the way

we do business back in Washington, too. With that I will yield back.

Chairwoman MUSGRAVE. Here, here. That is so true. We need to have a realistic way of looking at how our tax policy changes behavior and changes revenue that is coming into the federal treasury.

I just have to comment to all of you, this is the American dream, owning your own business, working hard, moving up, creating jobs and affecting those families, those employee's families that work for you.

I just wondered, Jim, if you could give us an idea of how many small businesses fail.

Mr. HENDERSON. How many fail?

Chairwoman MUSGRAVE. Yeah, how many fail. Do you know? A lot of people want to own their own business. What is the success rate?

Mr. HENDERSON. We have done quite a bit of analysis and we look at it more from the start and the stopping of the business, not that they failed because a lot of businesses go out of existence not because they failed but because of circumstances. They may be a mom and pop shop and they want to retire so they just close it down.

There are other situations like that where businesses cease to exist. But our data shows that typically when you look at small businesses that start in one year, after a four-year period 66 percent of those will still be in existence. Now, that is substantially higher than conventional wisdom. You always hear that 90 percent of them fail in the first year. Our data does not support that.

Brian Headd in our economic shop has done extensive work in this area. He has been quite recognized for some of his fine work in this arena. We think we are beginning to get a better handle on the starting and the cessation of business operations with the data that he has been working with.

Chairwoman MUSGRAVE. When I heard testimony from you folks, it occurred to me that success rate for businesses is going to be much higher if you can have a favorable tax environment. I would like you to comment on that. How does that help businesses when they are starting up?

Mr. HENDERSON. You are absolutely right on the money. In fact, we just released a study last month that looked specifically at marginal tax rate and what affect that had on the willingness of people to enter into their own business operation or to cause them maybe to get out of business.

The thing that it showed, surprise, surprise, if you got a lower marginal tax rate, more people were willing to take the risk, get in and try their idea. Conversely, the higher the tax rate, the more folks that found they were running into a situation maybe with some other troubles with their business operations and decided to call it quits rather than tough it out.

What you do in terms of tax policy is critical to businesses. They look at a lot of different factors when they decide to open a business but tax policy is one that has a very important impact. As all the panel here who are on the streets and have testified, an ex-

pending provision that has been increased as this one has needs to stay at that level, if not increased.

That's one of the things that I asked when I called a number of small business consultants and accountants before coming here today. One of the things that was recommended was, you know, "I've had three businesses," one of the accountants said, "that have maxed." This could be 500. There are always people that can even use a little bit more help. They said, "At the minimum make sure they understand how vital it is that this cannot go back to \$25,000."

Chairwoman MUSGRAVE. Thank you very much.

Ms. Jones, I really am intrigued by your resiliency and the story of the growth of your business. You did allude to the fact that because of this tax break you could pay for benefits for your employees. Could you comment on how this gives you more choice in your business?

Ms. JONES. Well, by using the tax incentives, like I said, not only can I—you know, it is always a numbers game in business and you have to figure out what is the best for you. I think employees are the best part of the business anyway. Without my employees I don't have a business. Like I kind of said, I need to be able to retain good employees.

If I don't have any kind of health insurance at all, they are going to go somewhere else. I actually kind of counsel a lot of my employees. They figure they are going to go somewhere else and they can maybe make a little more money somewhere else. When I show them what their benefits are to them and their families, then they stay. The almighty dollar is nice but when you have the welfare of your family to take care of, that is definitely help on that side.

Chairwoman MUSGRAVE. Does anyone want to comment anymore on predictability or certainty in regard to business growth?

Mr. HENDERSON. If I may, Madam Chairman.

Chairwoman MUSGRAVE. Yes.

Mr. HENDERSON. The Office of Advocacy has also done a study that looked at that. They found that predictability and permanence in the tax code is important but predictability is probably even higher so they can do the planning. That is one thing I heard loud and clear from our panel here. The length of time of the planning that they are doing, they are looking at '07, '08, '09 for some of their operations.

With the tax code if we don't know what is going to happen for sure after '07, it just creates this cloud. Once you get a cloud in front of it like that, it creates the uncertainty to make good decisions. By having that permanency, and particularly predictability in the tax code you are going to enable the small business community to do much, much better than they will if there is any uncertainty. I know you can't eliminate all uncertainty but what you can do to reduce the degree of uncertainty would be monumental.

Chairwoman MUSGRAVE. Thank you. Mr. Beauprez, anymore questions?

Mr. BEAUPREZ. Less a question and maybe an observation again here. I think there is a perception out there in some quarters that if we give business, I would say, incentive, some say just a tax cut, but it works the same way, somehow that money kind of goes in

their pocket or something. You buy a deeper down quilt for your bed. I guess if you are a down quiltmaker that is pretty good deal, too.

What all of you have said is because of these tax incentives you have done exactly what I, of course, having been a business person before and understood you would do, you have invested it and you multiplied it and it magnifies. That is exactly how an economy gets going and how job growth works.

This has been extremely valuable testimony and some real stories that I will be able to use and testimony I will be able to use when the Ways and Means Committee meets and we take up the issue of what do we do about the expensing and whether or not we can extend. Perhaps a miracle happens and we can make permanent this portion of the tax codes.

I thank all of you for being here. Madam Chair, I applaud you for holding this hearing. The timing couldn't be more perfect nor could the panel. Well done.

Chairwoman MUSGRAVE. Thank you. I am encouraged by what this has meant to you and why this legislation is important. I thank you for your expertise and I applaud you for what you have done for the economy in Northern Colorado. This is where it is all taking place, where jobs are created. You are affecting our area in a very positive way and I want to thank you for taking time to be with us today because I am very well aware of how hard small business owners work. I thank you for your time. Thank you. This hearing is adjourned.

[Whereupon, at 2:43 p.m. the Subcommittee was adjourned.]



Advocacy: the voice of small business in government

Testimony of

***James Henderson
Regional Advocate, Region VIII
U.S. Small Business Administration
Office of Advocacy***

***U.S. House of Representatives
Committee on Small Business
Subcommittee on Workforce, Empowerment, and
Government Programs***

Date: August 9, 2005
Time: 1:30 P.M.
Location: Larimer County Courthouse
Fort Collins, Colorado
Topic: Small Business Expensing-Job Growth Through the
Tax Code

Chairwoman Musgrave, Congressman Beauprez, and Members of the Subcommittee, thank you for the opportunity to testify and submit comments to the record today. My name is Jim Henderson and I am the Regional Advocate for Region VIII in the Office of Advocacy at the U.S. Small Business Administration (SBA). Created by Congress in 1976, the Office of Advocacy of the SBA is an independent voice for small business within the federal government; therefore the views expressed in this statement do not necessarily represent the views of the Administration or of the SBA. The Chief Counsel for Advocacy, Thomas Sullivan, a Senate confirmed Presidential appointee, directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. The Office of Advocacy identifies the small business community's regulatory issues of concern through economic research, policy analyses, and small business outreach.

Since small businesses do not have the time and resources to insert themselves into the rulemaking process, Advocacy was created to directly advance their views, concerns and interests. As the Regional Advocate for Region VIII, I am charged with being the eyes and ears for the Chief Counsel for Advocacy by listening and responding to concerns of small businesses in Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming. I also work with state officials on small business-friendly initiatives.

The Subcommittee has requested Advocacy's views on the beneficial impact of the increased expensing limit contained in Section 179 of the Internal Revenue Code.

Advocacy believes Section 179 is having a significant positive impact on small businesses because it increases their cash flow and dramatically reduces the paperwork necessary to account for the capitalization of purchased business property. Using 1999 tax data, 69 percent of businesses that elected to expense their purchases were sole proprietors and individual farmers. This represents approximately 2.9 million businesses.

We at the Office of Advocacy praise Chairwoman Musgrave, Congressman Beauprez and the Subcommittee for your leadership and commitment to improving the regulatory environment in which small business must operate so that they may grow and succeed. In 2003, the Chief Counsel for Advocacy testified before the House Committee on Small Business and the Subcommittee on Tax, Finance and Exports in support of the increase in the Section 179 expensing limit and the need to make it permanent. We were very pleased that legislation to increase the expense limit passed that year and in 2004 legislation passed to extend the expensing increase through the end of 2007.

Section 179 permits small firms to expense the cost of purchased business equipment placed in service during the tax year. Without Section 179, small businesses would have to depreciate the cost of business assets by using permitted depreciation methods. Prior to recent legislation the permissible expensing amount was \$25,000 and it was phased out dollar for dollar for investments in excess of \$200,000. Thus, small firms were required to utilize the more complicated depreciation methods if their business investments reached \$225,000 in a single year.

In the past two years, Congress has passed and the President has signed two important pieces of legislation that increased the availability of Section 179 to small businesses. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the amount of business investment a small business can expense from \$25,000 to \$100,000,¹ increased the limit for phasing out expensing from \$200,000 to \$400,000,² and indexed both amounts to inflation from 2003 through 2005. The American Jobs Creation Act of 2004 (AJCA) extended the increased expensing amount and phase out limit through 2007. The previous \$25,000 and \$200,000 limits will go back into effect in 2008. Advocacy believes the expensing limits should be extended as called for in Chairwoman Musgrave's legislation H.R. 1678. Ultimately, Advocacy hopes the limits will be made permanent.

Expansion of the expensing provisions of Section 179 is important to small businesses right here in Colorado. Mark Patterson, a tax accountant with the firm Stockman Kast Ryan and Company in Colorado Springs, recently told me he has many clients that have taken advantage of Section 179's increased expensing provision. Specifically, Mr. Patterson advised a new medical clinic that started in 2003 to use Section 179. Starting a medical clinic requires a significant amount of upfront capital investment. The clinic availed itself of the Section 179 expensing provisions which increased its working capital allowing it to hire two key employees further ensuring the success of the clinic. Additionally, the clinic's chance of being successful was increased because it was able to have the latest equipment and technology from day one.

¹ In 2004 the expense allowance was \$102,000. The amount for 2005 has not been announced.

² In 2004 the maximum expensing allowance was \$410,000. The amount in 2005 has not been announced.

H.R. 1678 will extend the availability of the larger expensing limit until 2010. This important legislation will have a direct effect on the viability of small businesses. A firm's cash flow is increased by the use of Section 179 expensing.³ Section 179 also decreases the cost of tax compliance for small firms. An Office of Advocacy study on federal regulatory burden in 2001 showed that tax compliance costs for firms with fewer than 20 employees was twice as much, per employee, as large firms with more than 500 employees. Tax compliance cost \$1200 per employee for very small firms versus \$562 for large firms.⁴ Thus, Section 179 addresses two vital areas of concern for small businesses; it increases cash flow⁵ by lowering their tax liability and it reduces the cost of compliance and recordkeeping that is required by other methods of depreciation.

The President's 2006 fiscal year budget requests that the increased expensing amounts established by JGTRRA be extended permanently. Congressman Wally Herger who is a co-sponsor of H.R. 1678, has also introduced H.R. 1388, which if enacted would achieve the President's goal. The Office of Advocacy supports this legislation as well.

Small business firms need tax reform that will focus on three primary areas: lower rates, simplified compliance, and predictability. It is intuitive that lower rates are good for the development of small businesses. The Office of Advocacy has produced research

³ See CRS Study RL31852, *Small Business Expensing Allowance: Current Status, Legislative Proposals, and Economic Effects*, by Gary Guenther, p. 7 (May 9, 2005).

⁴ See *The Impact of Regulatory Costs on Small Firms*, an Advocacy funded study by W. Mark Crain and Thomas D. Hopkins (October 2001).

⁵ See *The Impact of Tax Expenditure Policies on Incorporated Small Businesses*, an Advocacy funded study by Innovation & Information Consultants, Inc., Concord MA (April 2004), (this study found that accelerated depreciation provisions account for 2.4% of business receipts for business with less than \$5 million in annual revenue).

that shows that increasing marginal tax rates on business income reduces the chances that entrepreneurs will open new firms while it increases the likelihood that they will exit the market.⁶ Conversely, the study reveals that decreasing marginal tax rates across the board would actually spur entrepreneurship by increasing the rate of new firm formation and slowing the rate of firm closure. Complexity of the tax laws adds an additional burden to small firms which is not reflected in the marginal rate. Similar to tax complexity is the concept of tax permanence. Advocacy research shows that when there is less predictability in the tax code there is less economic predictability. Sunset provisions, phase-outs, and threshold levels introduce a higher level of variability in small firm expectations. Certainty in the tax code engenders confidence in small businesses allowing them to make decisions for the future.⁷

Section 179 directly addresses simplified compliance and establishes lower tax liability for small firms. The passage of H.R. 1678 will provide predictability until 2009. Small businesses are always better off when they can plan for the future with certainty. The Office of Advocacy strongly supports H.R. 1678 because it provides smart tax reform and is beneficial to the small business community.

⁶ In a study funded by the Office of Advocacy it was found that marginal tax rates have an effect on individuals' decision to enter into entrepreneurial activities. Reducing rates may lead to increased entrepreneurial activity and survival. See *Taxes and Entrepreneurial Activity: An Empirical Investigation Using Longitudinal Tax Return Data*, by Donald Bruce, Ph.D., and Tami Gurley (March 2005).

⁷ See the working paper by Dr. Radwan Saade, *Rules Versus Discretion in Tax Policy*, is located at www.sba.gov/advo/stats/wkp02rs.pdf.

Madam Chairwoman, this concludes my prepared remarks. Let me state again what a pleasure it is to have had this discussion here in Colorado on this important small business tax issue. I would be very happy to try to answer any questions you might have.

**Testimony of Linda Jones
On Behalf of the American Rental Association
Before Representative Marilyn Musgrave,
Chairman, Subcommittee on Workforce, Empowerment, and Government
Programs, House Committee on Small Business and
Representative Bob Beauprez, Member of the House Ways and Means Committee
August 9, 2005
Fort Collins, Colorado**

Good afternoon Chairman Musgrave and Congressman Beauprez. My name is Linda Jones; I own and operate Area Rent-Alls which has two facilities in Westminster, CO with a total of 15 employees. I am also a past-Director on the board of the American Rental Association (ARA), representing Colorado, Arizona, New Mexico, Utah and Wyoming. I want to thank you for the opportunity to testify before you today on the impact of Section 179 of the federal tax code on rental businesses. I will summarize my testimony, but ask that the full extent of my remarks be included in the record.

ARA's membership includes more than 4000 rental businesses with 6200 locations and 960 suppliers. ARA has several members that operate national or regional chains or franchises of rental stores generating rental revenues that reach well over a billion dollars in annual revenue. However, the majority of ARA's members are small, family-owner and often multigenerational rental businesses. ARA members rent construction equipment and tools to contractors and homeowners and party and event supplies to commercial and private clients.

The entire rental industry generates more than \$24 billion in annual revenue. Approximately 80 percent of ARA members operate businesses that generate less than \$1.5 million in annual revenues and 95 percent of ARA members are businesses that generate less than \$3 million in annual revenue.

Both large and small rental companies are important to the rental industry. Large companies have increased the acceptance of rental, particularly in the commercial and construction equipment segment of the market. Small rental companies create competition in local markets, and are the sole providers of rental products in many communities.

The rental business is capital intensive. Rental businesses need equipment inventory to serve their customers. ARA estimates the total rental inventory in 2004 was valued at \$34.1 billion (new equipment value), and we believe the annual replacement cost for equipment in the rental industry ranges between \$3.4 billion and \$6.2 billion. Using some basic financial relationships ARA estimates that more than 90 percent of our members reinvest less than \$400,000 annually making them eligible for the current Section 179 deduction.

In May, 2003, the Congress passed and President Bush signed the *Jobs and Growth Tax Relief and Reconciliation Act of 2003* (JGTRRA). JGTRRA expanded Section 179 of the

tax code by increasing the amount of allowable expensing for purchased equipment from \$25,000 to \$100,000. JGTRRA also raises the phase-out threshold from \$200,000 to \$400,000 annually, indexed for inflation. These provisions took effect in the 2003 tax year and were scheduled to sunset on December 31, 2005. Under the provisions businesses with an annual investment in qualifying equipment totaling less than \$400,000 can take full advantage of the expanded expensing limits. The *Working Families Tax Relief Act of 2004* extends the provisions through 2007.

H.R. 1678, sponsored by Representative Musgrave and co-sponsored by Representative Beauprez would further extend the provisions through 2009. I want to compliment both of you for your support of this issue and I want to tell you what Section 179 has done for my business.

Let me give you my background. I am a second generation rental store owner. My parents and grandparents started the general tool/construction rental store in 1962. I purchased Area Rent-Alls Inc. from my parents in 1986. At that time I added rental costumes to our inventory to increase income for the business during the slower months of the year. The costume rentals grew so much that I expanded to a second location in 1994. At that time I added wedding and party equipment. Thus, my rental business reflects both costume and party rental and equipment rental for homeowners and contractors within the two stores.

In the 1986 Colorado recession, I managed the rental store with two employees. That year 13 rental stores in Colorado went out of business. I feel fortunate enough to have survived that economic downturn. Today I have 15 to 18 employees all of whom have families to support. I would like to add that I have never laid off any employees in spite of the rise and fall in our economy since 1986. I would hope the reason for that is good management skills, which brings me here today to talk to you on Section 179.

I would like to tell you how Section 179 has personally helped my business. In 2003 I was able to use \$57,000 of the allowable expensing for purchased equipment permitted within Section 179. This actually equated to a tax savings for my business of approximately \$7,360. That same year I incurred a 30% increase in health insurance premium rates. This tax savings gave me the funds to maintain health insurance coverage for my employees. This fact alone is very significant for my employees and their families and for me as an employer to hire and retain employees. Section 179 not only provided the benefit of health insurance for my employees, but also helped me to include new equipment within my rental inventory. These purchases provided equipment with updated safety features to benefit the customer renting my equipment which reflects well upon my rental business.

In 2004, I was able to use \$64,000 of the allowable Section 179 expensing. Again, this savings, due to the availability of Section 179, was immediately reinvested into my employees' healthcare benefits, and aided me to replace equipment in my rental inventory. This tax benefit allows me, as a small business owner, to continue to reinvest both in my employees and my business that adds to the economy of my community while

providing the public with a service of rental equipment. I also realize that all costs of maintaining and growing my business continue to escalate, whether the cost of maintaining my property and equipment, advertising, training and education for my employees or similar expenses. The tax benefit of Section 179 affords opportunity for continued growth for the right reasons to individuals involved in small business.

I have not estimated the total amount of the \$100,000 of Section 179 allowable expensing that I will utilize for 2005, but I know I plan to use an increased level from previous years. The availability of Section 179 motivates me to continue to grow my business and is a key component within my business plan. It gives me the ability to react to opportunities for increased profits to expand my business. My goal is to build my rental business of two rental stores into one new rental location. This goal is achievable in a more reasonable timeframe only because of the availability of Section 179. It is a vital part of my planning for the future, and for ensuring a bright and profitable future for my rental business. Section 179 continues to be an instrumental business tool within the goals of Area Rent-Alls, Inc. and I'm sure for all small businesses.

In conclusion, the current provisions of Section 179 help small businesses like mine compete by providing incentives to invest in new equipment. The option of expensing more of our investment dollars also allows us to manage cash flow, and generating additional free cash allows us to expand our businesses and increase employment in our communities. Passing H.R. 1678 would be a positive step for small business. However, ARA strongly supports the position that the current Section 179 provisions should be made permanent. Small businesses like mine and so many other members of the American Rental Association need a simple, straightforward way of managing their tax exposure and recovering the cost of business capital. I urge you to consider our position in your future deliberations on Section 179. Small business owners want to continue to be a part of the future of our local economies. The assistance you can give us to do so through your policy decisions will make a dramatic difference to our future.

That concludes my remarks Madam Chairman. Once again, thank you. I will be happy to answer any questions you or Congressman Beauprez have at this time.

Field Hearing (Small Business Expensing)
Testimony of Craig C. Hau
601 Breakwater Drive
Fort Collins, Co 80525

Regarding Sec. 179 IRS Capital Equipment Expenses

I personally utilized the expensing limits in 2003 and 2004 as outlined in the code.

I believe myself and many other small business owners purchased new equipment, they otherwise would not have.

The sections which allows expensing lease hold improvement write offs also inspired myself and 3 partners to invest in a new office building in 2004.

In summation, I support the extension of the code and believe it fulfills its goals of growth and employment in our economy.

Sincerely,

Craig C. Hau

8/6/2005

Hearing Name

Small business Expensing-Job Growth through the Tax Code

Committee

Subcommittee on Workforce, Empowerment, and Government Programs

Date

August 9, 2005

Prepared Remarks of Mr. Ronald H. Lautzenheiser

Owner Big O Tire and Automotive Center
1506 N. College Ave.
Ft. Collins, CO.

Good Afternoon Chairperson Musgrave, Congressman Beauprez and members of the committee.

My name is Ron Lautzenheiser. I would like to thank you and the committee for taking the time to visit our city and soliciting input and ideas about job growth through the tax code. Specifically H.R. 1678 as it relates to Section 179 of the IRS Code.

I am the owner of two Big O Tire and Automotive Service Centers and two Grease Monkey Lube Centers located in Larimer and Weld Counties.

In addition to representing my own retail centers, I am representing the more than 550 independently owned Big O Tire and Automotive Centers, the 1,200 small businesses active in the Ft. Collins Chamber of Commerce and the more than 50 small businesses located within our new Urban Renewal Boundary in North Ft. Collins.

After spending 30 years in the world of the large corporations, I founded our first automotive center in 1996 and expanded in 2001, 2003 and 2005. Together the centers employ more than 50 persons. Over the last nine years I've used government programs to assist in the start up of all of these businesses. Specifically the SBA 7(A) loan guarantees and section 179 of the code. Without these important programs I would very likely not be in business today and would not be employing our more than 50 associates.

The current tax law signed by President Bush in 2003 which increased the Section 179 capital equipment write off limits to \$100,000 in year one, was very instrumental in my decision to start two new automotive centers in years 2003 and 2005. In addition to

opening new centers we also acquired new capital equipment for use in our existing centers in 2004 and 2005.

The purchase of new capital equipment allows me to produce a higher quality product or service usually with less repair and maintenance cost. It helps my business be more efficient and therefore more competitive in the market place. Section 179 helps me defray the cost of capital acquisitions because immediate tax savings leads to immediate reinvestment.

Extension of the current deduction limits to 2010 will help alleviate my personal concern about the timing of capital acquisitions. Opening a new center usually requires real estate acquisition and construction. This is a lengthy process which starts 2-3 years prior to a center opening. With the current law expiring in 2007 it is probably already too late for me to open new centers in our area and utilize the current \$100,000 deduction limit.

Ft. Collins has a new URA on the blighted North Side of the City. It is in year one of its twenty five year life. The extension of Sec.179 to year 2010 would greatly assist many of the 50 plus small business located within the URA boundary who are trying to turn this blighted area of the city into a job growth area.

Many of the 550 plus Big O Tire and Automotive Centers are making decisions about whether to purchase new capital equipment. The average new Center purchases \$200-\$300,000 of capital equipment. Section 179 deductions have a strong influence on their decisions.

In conclusion I'd like to thank the committee for its efforts in working towards the passage of H.R. 1678. Raising capital, particularly at affordable rates is one of small businesses great challenges. It ranks right up there with the high cost of health care. In my work as a volunteer Ft. Collins SBDC mentor to new franchise business owners, I see their ability to raise capital as one of their real hurdles. H.R. 1678 in conjunction with SBA loan guarantees will be a great assistance.

Again, my thanks to Chairperson Musgrave, Congressman Beauprez and the committee.

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Date: 8-9-2005

To: Hearing of the Subcommittee on Workforce, Empowerment & Government Programs

From: Rob Pehkonen – Owner
Appliance Solutions Inc

Re: Written Testimony H.R. 1678

Dear Subcommittee,

My testimony is very simple. My Company has tripled in dollar volume and doubled in employees in the past 12 months due directly because of the revision of section 179 of the Internal Revenue Tax Code allowing small business to expense the full value of new capital equipment, furniture, computers, office equipment and other expenses incurred in open up three new retail Appliance sales stores. I am in favor very much of H.R. 1678 – extending the higher expensing limits up to \$100,000.00 and an investment up to \$400,000.00.

I own and operate five (5) Appliance retail sales stores in Colorado (stores in Fort Collins, Greeley, Northglenn, Lakewood & Southwest Plaza). If you would have asked me 12 months ago... I owned and operated two (2) Appliance stores in Fort Collins & Greeley. The current law signed by president Bush in 2003 was a strong deciding factor that helped make it possible for me to undertake this major expansion in my business. It helped reduce the high cost of adding three new retail location in 2004 and helped provide up-front addition cash flow by reducing my tax liability – and in turn helping my business grow from 10 employees to 23 currently and a total of 28 planned.

My Appliance business is very much like much small business around the country. My company goal is very simple. It is “Depend on US...” taken as an extension of the Ol’ Lonely repairperson theme of a dependable product at a cost effective price. My showrooms have all the product hooked up live and plugged in so my customers can “Check out the appliance in my showroom – before they take it home...” It is expensive to remodel my showrooms, run water, drain lines and power to hook everything up live.

On average it cost \$150,000 per location to accomplish this. Simple stated the revision of the tax code allowed my to expense more of these expenses in the year that I incurred the expenses verse over the next 5 to 37 years – helping me directly grow my business.

I urge the subcommittee to back H.R. 1678 and allow small business to grow, help our economy and employee more people.

I look forward to answering any questions you have and helping you understand the importance of H.R. 1678 to small business.

Thank you for your time,

Rob Pehkonen
Owner – Appliance Solutions Inc - the Maytag store.



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